



CITY OF LODI

COUNCIL COMMUNICATION

AGENDA TITLE: Authorize Actuarial Services for Workers' Compensation

MEETING DATE: October 19, 1994

PREPARED BY: Assistant City Manager

RECOMMENDED ACTION: That the City Council authorize the City Manager to enter into an agreement (Exhibit A) with Advanced Risk Management Techniques, Inc. to conduct an actuarial study of the City's Workers' Compensation Program.

BACKGROUND INFORMATION: The City of Lodi has been self-insured for workers' compensation since the mid-seventies. The program has been a very successful cost savings program. The City has charged itself less than the book rate for Workers' Compensation and has made minor modifications to its rates to generate sufficient revenues to pay bills. The fund is solvent, but the required reserves are greater than the cash on hand. While the City is not in a cash deficit state, there are indications that there should be a review of rates and the financial structure of the City's Workers' Compensation Fund.

Advanced Risk Management Techniques, Inc. is used by the California Joint Powers Risk Management Authority to prepare its actuarial studies. The Advanced Risk Management Techniques, Inc. has offered to conduct a study of the City of Lodi's workers' compensation fund for a cost of \$3,000. Their services will include:

- 1) Estimate Outstanding Losses
- 2) Project Financial Position
- 3) Project Future Losses
- 4) Recommend Funding Level
- 5) Project Claims Disbursements
- 6) Discuss Observations
- 7) Affirm that the City is in compliance with GASB 10

FUNDING: Workers' Compensation Fund (31 Fund)

Respectfully submitted,

Jerry L. Glenn
Assistant City Manager

JG:br
Attachment
CCOM-122/TXTA.07A

APPROVED: *Thomas A. Peterson*

THOMAS A. PETERSON
City Manager



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EXHIBIT A

ADVANCED RISK MANAGEMENT TECHNIQUES, INC.

July 6, 1994

**Mr. Jerry L. Glenn
Assistant City Manager
221 West Pine Street
Lodi, CA 95240**

ACTUARIAL SERVICES

Dear Mr. Glenn:

The individual members of the California Joint Powers Risk Management Authority (CJPRMA) retain liability losses within retentions ranging upward from \$500,000. As part of our service arrangement with CJPRMA, ARM Tech has agreed to perform actuarial studies to the individual membership at reduced rates.

The fee for the actuarial study of the liability program within the self-insured retention is \$3,000.

Many CJPRMA members are also self-insured for workers' compensation. The fee for the actuarial study of the workers' compensation program is also \$3,000.

There is no fee to include the self-insured property and/or automobile physical damage programs, assuming an actuarial study is performed for either the liability or workers' compensation program.

The actuarial studies are completely optional. The above fees apply to individual city members, not pools. We would be happy to propose a fee schedule for any pool that is interested.

The actuarial study includes:

1. **Estimate Outstanding Losses:** Estimate outstanding losses (including allocated loss adjustment expenses (ALAE)) as of fiscal year-end. A long-range forecast will be provided for the upcoming fiscal year-end.

The outstanding losses are the cost of unpaid claims. The outstanding losses include case reserves, the development of known claims and incurred but not reported (IBNR) claims. ALAE are the direct settlement expenses for specific claims, primarily legal expenses.

Outstanding losses will be shown on a full-value basis (not discounted for investment earnings) and present-value basis (discounted for investment earnings). The underlying interest rate will be based on the member's investment portfolio.

We will estimate the outstanding losses at 50%, 65% and 80% confidence levels (or other reasonable levels set by the member). Confidence levels reflect the degree of statistical confidence the actuary holds that funds will be sufficient to meet losses. For example, an 80% confidence level means that in eight out of ten years there will be sufficient funds.

2. **Project Financial Position:** Project the financial position as of fiscal year-end.

The projected financial position is a comparison of estimated outstanding losses and funds earmarked (unaudited) to meet them.

3. **Project Future Losses:** Project future losses (and ALAE) for the upcoming two fiscal years.

The projected future losses are the accrual value of losses, regardless of report or payment date.

Projected future losses will be shown on a full-value basis (not discounted for investment earnings) and present-value basis (discounted for investment earnings).

Projected future losses can be shown at 50%, 65% and 80% confidence levels (or other reasonable levels set by the member).

4. **Recommend Funding:** Recommend an overall funding level for the upcoming fiscal year that reflects projected future losses, anticipated investment income, the financial position of the member's risk management fund and a reasonable provision for contingencies.

If the member's risk management fund enjoys equity, we will outline a prudent plan to release the equity. The plan will be designed to release the equity in a financially responsible manner.

If the member's risk management fund is in a deficit, we will develop a long-term strategy (three to five years) to reduce the deficit.

5. **Project Claims Disbursements:** Project claims disbursements (losses paid) during the next two fiscal years.

The projected future losses are the cash value of losses, regardless of report or accident date. This is a cash flow analysis useful for investment and budget purposes.

6. **Discuss Observations:** Discuss our observations of the member's loss data, loss experience and projected financial position. Differences from previous studies will be identified and explained.

7. **Affirm GASB Statement No. 10 Compliance:** Provide a statement affirming the conclusions in the actuarial study are consistent with GASB Statement No. 10.

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We appreciate this opportunity to serve the members of CJPRMA. Please call me at (714) 472-8324 if you have any questions or comments.

Respectfully submitted,

ADVANCED RISK MANAGEMENT TECHNIQUES, INC.

by: _____

Steven A. Glicksman, FCAS, MAAA
Director of Actuarial Services

SAG:mkh